

ASPIRE PUBLIC SCHOOLS TN, LLC

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

YEAR ENDED JUNE 30, 2015

ASPIRE PUBLIC SCHOOLS TN, LLC

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FINANCIAL SECTION

ASPIRE PUBLIC SCHOOLS TN, LLC

GOVERNING BOARD YEAR ENDED JUNE 30, 2015

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Jonathan Garfinkel	Board Chair	2018
Beth Hunkapiller	Member	2018
Richard C. Spalding	Member	2015
Stephen L. Merrill	Member	2020
Warren Felson	Member	2020
Jim Boyd	Member	2021
Leslie Parker Hume	Member	2021
James H. Quigley	Member	2021

ADMINISTRATION

James Willcox
Chief Executive Officer (through September 7, 2015)

Carolyn Hack
Chief Executive Officer (effective September 8, 2015)

Delphine Sherman
Chief Financial Officer

Elise Darwish
Chief Academic Officer

Heather Kirkpatrick
Chief People Officer

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Aspire Public Schools TN, LLC
Oakland, California**

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and general fund of Aspire Public Schools TN, LLC (the Organization) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the State of Tennessee *Audit Manual*, issued by the Tennessee Comptroller of the Treasury. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the Organization, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with the financial reporting provisions required of the State of Tennessee *Audit Manual*, issued by the Tennessee Comptroller of the Treasury, as described in Note 1(B).

Basis of Accounting

We draw attention to Note 1(B) of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of the financial reporting provisions required of the State of Tennessee *Audit Manual*, issued by the Tennessee Comptroller of the Treasury, which is a basis of accounting other than accounting principles generally accepted in the United States of America as applicable to the Organization, to comply with the requirements of the State of Tennessee *Audit Manual*. Our opinion is not modified with respect to this matter.

Change in Accounting Principles

As discussed in Note 1(O) to the financial statements, in 2015 the Organization adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and *GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended solely for the information and use of management, the Tennessee Comptroller of the Treasury, and the Federal Audit Clearinghouse and is not intended to be and should not be used by anyone other than these specified parties.

Other Matters

Required Supplementary Information

The Management's Discussion and Analysis and the Required Supplementary Information section, as listed in the Table of Contents, are presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the basis of accounting described in Note 1B, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Organization's basic financial statements. The Additional Financial Information section and Supplementary Information section, as listed in the Table of Contents, are presented for purposes of additional

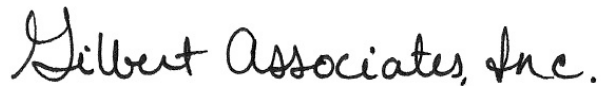
analysis and are not a required part of the basic financial statements. The Additional Financial Information section and the Supplementary Information section are required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and by the Tennessee Comptroller of the Treasury, State of Tennessee *Audit Manual*.

The Additional Financial Information section and Supplementary Information section are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Governing Board schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2015, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Organization's internal control over financial reporting and compliance.



GILBERT ASSOCIATES, INC.
Sacramento, California

December 28, 2015

ASPIRE PUBLIC SCHOOLS TN, LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2015

This section of the Aspire Public Schools TN, LLC's (the Organization) annual financial report presents our discussion and analysis of the organization's financial performance for the fiscal year ended June 30, 2015. Please read it in conjunction with the audited financial statements, which immediately follow this section.

Financial Highlights

- The assets and deferred outflow of resources exceeded the liabilities and deferred inflow of resources of the District at June 30, 2015 by \$9.3 million (net position).
- The current assets of the Organization's governmental fund comprise primarily of cash of \$2.2 million and accounts receivable of \$5.7 million. The current liabilities of the Organization's governmental fund at the close of the fiscal year are \$1.2 million, which is comprised of accounts payable and accrued expenses.
- The Organization incurred no long-term debt during fiscal year 2015.
- The Organization's governmental fund had general revenues of \$14.4 million and total expenses of \$14.6 million for the year ended June 30, 2015. The change in fund balance was slightly negative (\$264,215); the schools had unspent grant revenue as of June 30, 2014 which was used during fiscal year 2015.
- Net position for July 1, 2014 had to be restated (decreased by \$171,002) to account for the change in accounting principles for the implementation of Government Accounting Standards Board Statement No. 68 (GASB 68), Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 and GASB Statement No. 71 (GASB 71), Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68 (collectively, the Statements). The primary objective of the Statements is to improve accounting and financial reporting by state and local governments for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. It requires employers to report a net pension liability for the difference between the present value of projected pension benefits for past service and restricted resources held in trust for the payment of benefits. The Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.
- The net pension asset as of June 30, 2015 was \$12,022 as a result of the implementation of the Statements.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the organization's basic financial statements. The organization's basic financial statements are comprised of three components: (1) Statement of Net Position and General Fund Balance Sheet, (2) Statement of Activities and General Fund Revenues, Expenditures and Changes in Fund Balance, and (3) Notes to the Basic Financial Statements. In addition, the financial statements also include the Statement of Revenues, Expenditures and Changes in Fund Balance – General Fund – Budget to Actual, which is Required Supplementary Information required by the Governmental Accounting Standards Board (GASB).

ASPIRE PUBLIC SCHOOLS TN, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the organization's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the organization's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the organization is improving or deteriorating.

The *statement of activities* presents information showing how the organization's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements report on the function of the organization that is principally supported by appropriations from the State of Tennessee public education monies, and supplemented by foundation contributions and various government agency grants. The organization was formed to open and operate small, high quality charter schools that provide quality education to Tennessee youth in low-income neighborhoods.

The government-wide financial statements can be found on pages 11 and 12 of this report.

FUND FINANCIAL STATEMENTS

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The organization, like similar governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The General Fund is used to account for essentially the same function reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The organization maintains a general fund in the governmental fund balance sheet and the governmental fund statements of revenues, expenditures and changes in fund balance.

ASPIRE PUBLIC SCHOOLS TN, LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2015

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between the governmental fund and *governmental activities*. The governmental fund financial statements can be found on pages 11 and 12 of this report.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 13 through 26 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the organization assets significantly exceeded liabilities by approximately \$9.3 million.

Aspire Public Schools TN, LLC Net Position

	Governmental Activities
	2015
Assets:	
Current assets	\$ 7,970,395
Non-current assets	2,419,893
Total assets	<u>10,390,288</u>
Deferred Outflow of Resources	<u>1,180,642</u>
Liabilities:	
Current liabilities	<u>1,297,219</u>
Deferred Inflow of Resources	<u>990,524</u>
Net position:	
Unrestricted	8,086,235
Invested in Capital Assets	<u>1,196,952</u>
Total net position	<u>\$ 9,283,187</u>

ASPIRE PUBLIC SCHOOLS TN, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

This is the second year of the organization's activity. The current assets balance is a combination of cash from grant funds that will be used in subsequent years to pay for start-up costs of the new schools and accounts receivable at June 30, 2015 that was due from the State of Tennessee (\$1.9 million) and private grants (\$5.0 million). The total non current assets are comprised of capital assets that were purchased with an original cost of \$5,000 or more. The current liabilities balance is a combination of accounts payable that was due but not paid at June 30 and accrued salary and benefits expenses.

Aspire Public Schools TN, LLC.
Changes in Net Position

	Governmental Activities
	2015
Revenues:	
General revenues:	
Tennessee Basic Education Program revenue	\$ 9,119,948
Federal grant revenue	1,936,056
Private grants and contributions	4,363,875
All other revenue	157,143
Total general revenues	<u>15,577,022</u>
Expenses:	
Governmental activities:	
Educational programs	9,542,174
Supporting Services	4,505,137
Total expenses	<u>14,047,311</u>
Change in net position	1,529,711
Net position, beginning of year	<u>7,753,476</u>
Net position, end of year	<u>\$ 9,283,187</u>

Revenues

During this second year of the organization's operations, the primary source of revenue is Basic Education Program revenue from the State of Tennessee and private grants and contributions. There is also a small amount of federal funding that the schools receive. Total state revenue increased from fiscal year 2014 to fiscal year 2015 because of the increase in the number of students served.

Expenses

Total expenses consist of salary and benefit costs, and other operating expenditures needed to operate schools. Total expenses increased from fiscal year 2014 to fiscal year 2015 because of the increase in the number of students served.

ASPIRE PUBLIC SCHOOLS TN, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

Fund Financial Analysis

As noted earlier, the organization uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The organization's governmental fund is discussed below.

GOVERNMENTAL FUNDS

The focus of the organization's *governmental fund* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the organization's financing requirements. In particular, *fund balance* may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the fiscal year.

As of the end of the current fiscal year, the organization's general fund reported an ending fund balance of \$6,783,268.

Revenues by Source
General Fund

Revenues by Source	2015
General Revenues	\$ 9,119,948
Program Revenues	<u>5,246,155</u>
Total revenues	<u>\$ 14,366,103</u>

Expenditures by Function
General Fund

Expenditures by Function	2015
Educational programs	\$ 9,676,878
Supporting services	4,547,276
Capital outlay	<u>406,164</u>
Total expenditures	<u>\$ 14,630,318</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The organization had capital assets net of depreciation of \$1,196,952 as of June 30, 2015.

Long-term Debt

The organization had no long-term debt outstanding as of June 30, 2015.

ASPIRE PUBLIC SCHOOLS TN, LLC
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

BUDGETARY HIGHLIGHTS

Actual revenues of the organization were over the approved budget by \$ 1,465,341 for the year ended June 30, 2015. Basic Education program revenues were \$141,038 over budget because more students enrolled than originally anticipated at the three school sites and the funding rates used during the budget process were conservative. However, private grant revenue was approximately \$1,052,956 above budgeted expectations because of a revision to the revenue recognition of an existing grant. During the budgeting process, the organization anticipated recognizing significantly less of the grant revenue. With the grant revision, the organization was able to recognize more revenue from the existing multi-year grant.

The Organization prepares its budget on an activities basis, that is all expenditures expected to be incurred are accounted for regardless of when actually paid, which includes expenditures related to compensated absences. However, expenditures for compensated absences are not recognized in the Organization's general fund until payouts are expected to be made from current financial resources.

Actual expenditures of the organization were over the approved budget by \$ 675,528 for the year ended June 30, 2015. Salaries and Benefits were \$ 676,323 over budget as a result of an increase in staff. Other operating expenses were on track with budgeted expectations.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The following factors were considered in preparing the organization's budget for FY 2015-16.

- The organization will be growing its existing three schools but not opening another school in FY 2015-16.

Contacting the Organization's Financial Management

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the organization's finances. If you have questions regarding this report or need additional financial information, contact Ms. Delphine Sherman, Chief Financial Officer, Aspire Public Schools, 1001 22nd Avenue, Suite 100, Oakland, CA 94606.

ASPIRE PUBLIC SCHOOLS TN, LLC

STATEMENT OF NET POSITION AND GENERAL FUND BALANCE SHEET JUNE 30, 2015

	<u>General Fund</u>	<u>Adjustments (Note 2)</u>	<u>Statement of Net Position</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 2,221,206	\$ -	\$ 2,221,206
Accounts receivable	5,698,868	-	5,698,868
Prepaid items	<u>50,321</u>	<u>-</u>	<u>50,321</u>
Total current assets	7,970,395	-	7,970,395
NONCURRENT ASSETS			
Accounts receivable, net	1,210,919	-	1,210,919
Net pension asset		12,022	12,022
Capital assets, net	<u>-</u>	<u>1,196,952</u>	<u>1,196,952</u>
Total assets	<u>\$ 9,181,314</u>	<u>1,208,974</u>	<u>10,390,288</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred outflow of resources related to pensions		<u>1,180,642</u>	<u>1,180,642</u>
LIABILITIES			
Accounts payable	\$ 843,036	-	843,036
Accrued expenses, salaries and benefits	<u>344,091</u>	<u>110,092</u>	<u>454,183</u>
Total liabilities	<u>1,187,127</u>	<u>110,092</u>	<u>1,297,219</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	1,210,919	(1,210,919)	-
Deferred inflow of resources related to pensions	<u>-</u>	<u>990,524</u>	<u>990,524</u>
Total deferred inflow of resources	1,210,919	(220,395)	990,524
FUND BALANCE			
Nonspendable for prepaid items	50,321	(50,321)	-
Assigned	76,346	(76,346)	-
Unassigned	<u>6,656,601</u>	<u>(6,656,601)</u>	<u>-</u>
Total fund balance	<u>6,783,268</u>	<u>(6,783,268)</u>	<u>-</u>
Total liabilities, deferred inflows, and fund balance	<u>\$ 9,181,314</u>		
NET POSITION			
Invested in capital assets		1,196,952	1,196,952
Unrestricted		<u>8,086,235</u>	<u>8,086,235</u>
TOTAL NET POSITION		<u>\$ 9,283,187</u>	<u>\$ 9,283,187</u>

The accompanying notes are an integral part of these financial statements.

ASPIRE PUBLIC SCHOOLS TN, LLC

STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2015

	<u>General Fund</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Activities</u>
REVENUES			
General revenues:			
Tennessee Basic Education			
Program revenue	\$ 9,119,948	\$ -	\$ 9,119,948
Program revenues:			
Private grants and contributions	3,152,956	1,210,919	4,363,875
Federal grant revenue	1,936,056	-	1,936,056
Other state revenue	139,791	-	139,791
All other local revenue	14,661	-	14,661
Interest income	2,691	-	2,691
Total revenues	<u>14,366,103</u>	<u>1,210,919</u>	<u>15,577,022</u>
EXPENDITURES/EXPENSES			
Program Expenses:			
Educational programs	9,676,878	(134,704)	9,542,174
Supporting services	4,547,276	(42,139)	4,505,137
Capital outlay	406,164	(406,164)	-
Total expenditures/expenses	<u>14,630,318</u>	<u>(583,007)</u>	<u>14,047,311</u>
Change in fund balance/net position	<u>(264,215)</u>	<u>1,793,926</u>	<u>1,529,711</u>
Fund balance/net position - restated July 1, 2014	<u>7,047,483</u>	<u>705,993</u>	<u>7,753,476</u>
Fund balance/net position - June 30, 2015	<u>\$ 6,783,268</u>	<u>\$ 2,499,919</u>	<u>\$ 9,283,187</u>

ASPIRE PUBLIC SCHOOLS TN, LLC

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL

Aspire Public Schools TN, LLC (the Organization) is a Tennessee non-profit limited liability company created in July 2013, whose sole member is Aspire Public Schools (APS), a not-for-profit charter management organization. The Organization was formed to manage, guide, direct, and promote charter schools that provide quality education to Tennessee youth in primary and secondary grades. The Organization's support is derived primarily from State of Tennessee public education monies, foundation contributions, and various government agency grants.

The Organization operated three charters in Memphis, Tennessee as of June 30, 2015 under three charter agreements with the Achievement School District (ASD). ASD is an organizational unit of the Tennessee department of education, established by the commissioner for the purpose of providing oversight for the operation of the total program for individual schools or Local Education Agencies. The three charter schools operated by the Organization at June 30, 2015 are as follows:

- Hanley School 1: Charter granted for 10 years beginning in 2013-14
- Hanley School 2: Charter granted for 10 years beginning in 2013-14
- Aspire Coleman: Charter granted for 10 years beginning in 2014-15

B. ACCOUNTING POLICIES

As required by the State of Tennessee *Audit Manual*, issued by the Tennessee Comptroller of the Treasury, the Organization accounts for its financial transactions in accordance with accounting principles generally accepted in the United States of America as applied to governmental agencies, which is on a basis other than generally accepted accounting principles as applicable to the Organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

C. MEASUREMENT FOCUS AND FINANCIAL STATEMENT PRESENTATION

Government-wide financial statements – The statement of net position and the statement of activities display information about the Organization as a whole. All of the Organization's activities as a charter school are considered governmental in nature per the State of Tennessee *Audit Manual*, issued by the Tennessee Comptroller of the Treasury; therefore, the Organization does not report any business-type activities.

The government-wide statements are prepared using the *economic resources measurement focus* and the *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time the liabilities are *incurred*, regardless of when the cash flows occur. Governmental fund financial statements, therefore, includes a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds (see Notes 2 and 3).

ASPIRE PUBLIC SCHOOLS TN, LLC

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Governmental Fund financial statements – The Organization’s general fund is reported using the *current financial resources measurement focus* and the *modified accrual* basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Organization considers revenues to be available if they are collected within 60 days of the end of the current fiscal period with the exception of revenues related to private grants, which are included in revenue if received within twelve months after year end. Expenditures generally are recorded when a liability is incurred, and under accrual accounting. The Organization accounts for all of its operating activities in its general fund.

When both restricted and unrestricted resources are available for use, it is the Organization’s policy to first apply the expenditure toward restricted fund balance and then to other, less restrictive classifications – committed, assigned, and then unassigned fund balances.

D. BUDGETS AND BUDGETARY ACCOUNTING

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. As a condition of the Organization’s charter agreements with Achievement School District, the Organization’s Board of Directors must adopt a final budget no later than June 1. These budgets are revised by the Organization’s Board of Directors during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets for the general fund are presented as required supplementary information in these financial statements.

E. CASH AND CASH EQUIVALENTS

The Organization considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

F. PREPAID ITEMS

Payments made for services that will benefit periods beyond June 30, 2015 are recorded as prepaid items. In the governmental fund balance sheet, there is a reservation of fund balance equal to the amount of prepaid items, as these amounts are not available for expenditure.

G. CAPITAL ASSETS

Capital assets are those purchased or acquired with an original cost of \$5,000 or more and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Site improvements	7-10
Equipment	3-10

ASPIRE PUBLIC SCHOOLS TN, LLC

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

H. PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the *Teacher Legacy Pension Plan* in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the *Teacher Legacy Pension Plan*. Investments are reported at fair value.

I. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial section, *deferred outflow of resources*, represents a consumption of resources that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of resources that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

J. COMPENSATED ABSENCES

Unused vacation pay is payable upon termination from employment with the Organization. Vacation leave balances do not require the use of financial resources, therefore, no liability is recorded in the Organization's general fund financial statements. However, this liability is recorded in the statement of net position. As of June 30, 2015 the compensated absences balance was \$110,092.

Accumulated sick leave benefits are not recognized as liabilities of the Organization. The Organization's policy is to record sick leave as an operating expenditure in the period taken, since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

ASPIRE PUBLIC SCHOOLS TN, LLC

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

K. REVENUES

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. Under the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available.

Non-exchange transactions are those in which the Organization receives value without directly giving equal value in return, and includes private grants and contributions and state revenue. Under the accrual basis, this revenue is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted, matching requirements, under which the Organization must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Organization on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

L. UNEARNED REVENUE

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are recorded as unearned revenue.

M. FUND BALANCES

Fund balance presented in the governmental fund financial statements represent the difference between assets and liabilities. GASB Statement No. 54 requires that the fund balance be classified into the following categories based upon the type of restrictions imposed on the use of funds:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted – This classification includes amounts that have constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – This classification includes amounts that can be used only for the specific purposes determined by a formal action of the entity's highest level of decision-making authority.

Assigned – This classification includes amounts intended to be used by the entity for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned – This classification is the residual amount for the Organization's general fund and includes all spendable amounts not contained in the other classifications.

In the Organization's financial statements, the general fund reports nonspendable fund balance for amounts which are not available for expenditure of \$50,321, an assigned balance of \$76,346, and an unassigned balance of \$6,656,601.

ASPIRE PUBLIC SCHOOLS TN, LLC

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

N. USE OF ESTIMATES

The preparation of financial statements in accordance with the financial reporting provisions of the State of Tennessee Audit Manual, issued by the Tennessee Comptroller of the Treasury, requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities and deferred inflows and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

O. CURRENT YEAR GASB IMPLEMENTATION

For the year ended June 30, 2015, the Organization implemented GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71 (GASB 71) *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The primary objectives of GASB 68 and GASB 71 are to improve accounting and financial reporting by state and local governments for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. They require employers to report a net pension liability (or asset) for the difference between the present value of projected pension benefits for past service and restricted resources held in trust for the payment of benefits. The Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note 9 explains the effect of the current year GASB implementation.

Since GASB 68 requires retroactive application, beginning net position is reduced by the net pension asset offset by the related deferred outflow of resources as of June 30, 2014. As a result, for the year ended June 30, 2015, the beginning net position decreased by \$171,002 as the cumulative effect of a change in accounting principles:

Net position, beginning of year, as previously reported	\$ 7,924,478
Change in accounting principles (GASBs 68 & 71)	<u>(171,002)</u>
Net position, beginning of year, as restated	<u>\$ 7,753,476</u>

ASPIRE PUBLIC SCHOOLS TN, LLC

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

2. EXPLANATION OF DIFFERENCES BETWEEN THE BALANCE SHEET AND THE STATEMENT OF NET POSITION

Total fund balance of the Organization's general fund differs from net position of governmental activities primarily because of the long-term economic resources measurement focus of the statement of net position versus the current financial resources measurement focus of the general fund balance sheet.

The differences are described below:

Fund balance – at June 30, 2015	\$ 6,783,268
Private grants not collected within twelve months after year-end in governmental activities are not available to pay current period expenditures and, therefore, are reported as unavailable revenue in the general fund (deferred inflows).	1,210,919
Capital assets in governmental activities are not financial resources and, therefore, are not reported as assets in the general fund. The cost of capital assets is \$1,469,412 and the accumulated depreciation is \$272,460.	1,196,952
Net pension assets are not financial resources and, therefore, are not reported as assets in the general fund.	12,022
In the general fund, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources are reported as follows:	
Deferred outflow resources related to pensions:	1,180,642
Deferred inflow of resources related to pensions:	(990,524)
Compensated absences are not due and payable in the current period and, therefore, are not reported in the general fund.	<u>(110,092)</u>
Net position – at June 30, 2015	<u>\$ 9,283,187</u>

ASPIRE PUBLIC SCHOOLS TN, LLC

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

3. EXPLANATION OF DIFFERENCES BETWEEN STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE AND THE STATEMENT OF ACTIVITIES

The net change in fund balance for the general fund differs from the change in net position for governmental activities primarily because of the long-term economic resources measurement focus of the statement of activities versus the current financial resources measurement focus of the general fund statement of revenues, expenditures and changes in fund balance. The differences are described below:

Net change in fund balance – for the year ended June 30, 2015	\$ (264,215)
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Private grants not collected within twelve months after year end in governmental activities are not financial resources and, therefore, are reported as deferred inflows in the general fund. In contrast, the statement of activities reports private grants as revenue when earned.	1,210,919
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Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the statement of activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated lives as depreciation expense for the period. This is the amount by which capital outlay of \$406,164 exceeds depreciation expense of \$165,952 for the period.	240,212
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In government funds, pension costs are recognized when employer contributions are made. In statement of activities, pension costs are recognized on the accrual basis. The difference between accrual-basis pension costs and actual employer contributions was:	373,142
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Increases in the liability for compensated absences are not recorded as expenditures in governmental funds because they are not expected to be liquidated with current financial resources. In the statement of activities, changes in compensated absences are recognized as expenses.	<u>(30,347)</u>
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Change in net position – for the year ended June 30, 2015	<u>\$ 1,529,711</u>
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4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2015 are held entirely with financial institutions. The Organization manages its cash and cash equivalents on an Organization-wide basis, and at times individual school balances may reflect a cash deficit, however each school's liabilities are covered by the home-office cash balance.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

ASPIRE PUBLIC SCHOOLS TN, LLC

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

The Organization's deposits held with financial institutions in excess of federal depository insurance limits held in accounts not fully ensured were \$1,988,408.

5. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2015:

Federal government	\$ 905,247
State government	1,043,622
Private grants	<u>4,960,918</u>
Totals	<u>\$ 6,909,787</u>

6. CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2015</u>
Capital assets, not being depreciated:				
Construction in progress	<u>\$ 98,730</u>	<u>\$ 150,451</u>	<u>\$ (249,181)</u>	<u>\$ -</u>
Total capital assets, not being depreciated	<u>98,730</u>	<u>150,451</u>	<u>(249,181)</u>	<u>-</u>
Capital assets, being depreciated:				
Site improvements	292,860	309,760	-	602,620
Equipment	<u>671,661</u>	<u>195,131</u>	<u>-</u>	<u>866,792</u>
Total capital assets, being depreciated	<u>964,521</u>	<u>504,891</u>	<u>-</u>	<u>1,469,412</u>
Less accumulated depreciation for:				
Site improvements	(26,626)	(52,729)	-	(79,355)
Equipment	<u>(79,882)</u>	<u>(113,223)</u>	<u>-</u>	<u>(193,105)</u>
Total accumulated depreciation	<u>(106,508)</u>	<u>(165,952)</u>	<u>-</u>	<u>(272,460)</u>
Total capital assets, being depreciated, net	<u>858,013</u>	<u>338,939</u>	<u>-</u>	<u>1,196,952</u>
Governmental activities capital assets, net	<u>\$ 956,743</u>	<u>\$ 489,390</u>	<u>\$ (249,181)</u>	<u>\$ 1,196,952</u>

For the year ended June 30, 2015, depreciation expense was charged to functions as follows:

Educational programs	\$ 151,682
Supporting services	<u>14,270</u>
Total depreciation expense	<u>\$ 165,952</u>

ASPIRE PUBLIC SCHOOLS TN, LLC

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

7. RISK MANAGEMENT

The Organization is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Organization's policy is to minimize these risks through the purchase of commercial insurance. Settled claims have not exceeded the commercial insurance coverage since the Organization's inception.

8. COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

The Organization has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement would not be material.

Litigation

Various claims and litigation involving the Organization are currently outstanding. However, based on consultation with legal counsel, management believes that the ultimate resolution of these matters will not have a material adverse effect on the Organization's financial position or results of operations.

Commitments

The Organization has tenant improvement contracts commitments of \$76,346 at June 30, 2015. Private funds have been assigned for such commitments.

9. EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under a multiple-employer defined benefit pension plan maintained by an agency of the State of Tennessee. Certificated employees are members of the Tennessee Consolidated Retirement System. All employees who are not members of this plan must contribute to the federal Social Security system. The Organization also sponsors a 403(b) plan.

Tennessee Consolidated Retirement System (TCRS):

Teacher Legacy Pension Plan

Plan Description:

Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 are provided with pensions through the *Teacher Legacy Pension Plan*, a cost sharing multiple-employer pension plan administered by the TCRS. The *Teacher Legacy Pension Plan* closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the *Teacher Retirement Plan* became effective for teachers employed by Local Education Agencies (LEAs) after June 30, 2014. The *Teacher Retirement Plan* is a separate cost-sharing, multiple-employer defined benefit plan. The TCRS was created by state statute under Tennessee Code

ASPIRE PUBLIC SCHOOLS TN, LLC

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits Provided:

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the *Teacher Legacy Pension Plan* are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Contributions:

Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute 5 percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Teacher Legacy Pension Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions by the Organization for the year ended June 30, 2015 to the *Teacher Legacy Pension Plan* were \$366,598. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

Pension asset - At June 30, 2015, the Organization reported an asset of \$12,022 for its proportionate share of net pension asset. The net pension asset was measured as of June 30, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The Organization's proportion of the net pension asset was based on the Organization's employer contributions to the pension plan during the year ended June 30, 2014 relative to the contributions of all LEAs for the year ended June 30, 2014. At the June 30, 2014 measurement date, the Organization's proportion was 0.073798 percent. The proportion measured as of June 30, 2013 was 0 percent as the Organization did not participate in the pension plan during the 12/13 fiscal year.

ASPIRE PUBLIC SCHOOLS TN, LLC

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Pension expense - For the year ended June 30, 2015, the Organization recognized a pension expense of \$102,350.

Deferred outflows of resources and deferred inflows of resources - For the year ended June 30, 2015, the Organization reported deferred outflows of resources and deferred inflows of resources related to pensions in the *Teacher Legacy Pension Plan* from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 29,186	\$ -
Net difference between projected and actual earnings on pension plan investments	-	990,254
Changes in proportion of Net Pension Liability (Asset)	675,964	-
Contributions subsequent to the measurement date of June 30, 2014	<u>366,598</u>	<u>-</u>
Total	<u>\$ 1,071,748</u>	<u>\$ 990,524</u>

The Organization's employer contributions of \$366,598, reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as an increase in net pension asset in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2016	\$ (130,109)
2017	(130,109)
2018	(130,109)
2019	(130,109)
2020	117,528
Thereafter	117,528

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary Increase	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjust	2.5 percent

ASPIRE PUBLIC SCHOOLS TN, LLC

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Mortality rates are customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
Total		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all LEAs will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

ASPIRE PUBLIC SCHOOLS TN, LLC

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate - The following presents the Organization's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what the Organization's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Organization's proportionate share of the net pension liability (asset)	\$ 2,027,677	\$ (12,022)	\$ (1,700,672)

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Payable to the Plan - At June 30, 2015, the Organization reported a payable of \$53,036 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

Teacher Retirement Plan

Plan Description:

In the fiscal year ended June 30, 2015, TCRS created a new Hybrid Pension Plan with Cost Controls for all eligible new employees hired on or after July 1, 2014. This plan is a combination of a Defined Benefit and Defined Contribution plan to help provide a sustainable plan going forward, control employer pension cost, and control unfunded liabilities related to pension plans.

Benefits Provided:

Participants of the Teacher Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the Teacher Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

ASPIRE PUBLIC SCHOOLS TN, LLC

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

Contributions:

Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute 5 percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the Teacher Retirement Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions for the year ended June 30, 2015 to the Teacher Retirement Plan were \$108,894, which is 4 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability. Since the measurement date for GASB 68 is June 30, 2014, which is prior to the July 1, 2014 inception of the *Teacher Retirement Plan*, there is not a net pension liability to report at June 30, 2015 and the Organization did not recognize a pension expense at June 30, 2015.

Deferred outflows of resources - For the year ended June 30, 2015, the Organization reported a deferred outflow of resources of \$108,894 related to this pension plan.

Payable to the Plan - At June 30, 2015, the Organization reported a payable of \$17,077 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

Other Defined Contribution Plan:

The Organization sponsors a 403(b) retirement plan, the Aspire Public Schools 403(b) TN Plan (TN Plan). All employees who normally work more than 20 hours a week and are not already enrolled in the TCRP retirement plan are eligible to participate in the TN Plan. The Organization will match a discretionary portion of the employers contributions, determined on an annual basis. The Organization contributed \$29,809 to the TN Plan for the year ended June 30, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

ASPIRE PUBLIC SCHOOLS TN, LLC

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GENERAL FUND - BUDGET TO ACTUAL FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	Between Final Budget and Actual
REVENUES:				
State of Tennessee Basic				
Education Program	\$ 8,978,910	\$ 8,978,910	\$ 9,119,948	\$ 141,038
Private grants and contributions	2,100,000	2,100,000	3,152,956	1,052,956
Federal grant revenue	1,821,852	1,821,852	1,936,056	114,204
Other state revenue	-	-	139,791	139,791
All other local revenue	-	-	14,661	14,661
Investment earnings	-	-	2,691	2,691
Total revenues	<u>12,900,762</u>	<u>12,900,762</u>	<u>14,366,103</u>	<u>1,465,341</u>
EXPENDITURES:				
Payroll	7,058,123	7,058,123	7,678,794	(620,671)
Benefits	2,221,319	2,221,319	2,276,971	(55,652)
Books, supplies & equipment	668,105	668,105	1,065,782	(397,677)
Other operating expenses	2,797,067	2,797,067	2,398,595	398,472
Home office administration fee	<u>1,210,176</u>	<u>1,210,176</u>	<u>1,210,176</u>	<u>-</u>
Total expenditures	<u>13,954,790</u>	<u>13,954,790</u>	<u>14,630,318</u>	<u>(675,528)</u>
Change in fund balance	<u>\$ (1,054,028)</u>	<u>\$ (1,054,028)</u>	(264,215)	<u>\$ (789,813)</u>
Fund balance - July 1, 2014			<u>7,047,483</u>	
Fund balance - June 30, 2015			<u>\$ 6,783,268</u>	

ASPIRE PUBLIC SCHOOLS TN, LLC
SCHEDULE OF THE ORGANIZATION'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
AS OF JUNE 30, 2015
LAST 10 YEARS*

Teacher Legacy Pension Plan of TCRS	
	<u>2015</u>
Organization's proportion of the net pension asset	0.073983%
Organization's proportionate share of the net pension asset	\$ 12,022
Organization's covered-employee payroll	\$ 4,002,645
Organization's proportionate share of the net pension liability/asset as a percentage of its covered-employee payroll	.30%
Plan fiduciary net position as a percentage of the total pension liability	100.08%

Notes to Schedule:

Change of benefit terms – In 2015, there were no changes to the benefit terms.

Changes in assumptions – In 2015, there were no changes in assumptions.

* Fiscal year 2015 was the first year of implementation, therefore only one year is shown.

ASPIRE PUBLIC SCHOOLS TN, LLC
SCHEDULE OF THE ORGANIZATION'S CONTRIBUTIONS
AS OF JUNE 30, 2015
LAST 10 YEARS*

Teacher Legacy Pension Plan of TCRS		2015
Contractually required contribution (actuarially determined)	\$	257,859
Contributions in relation to the contractually required contributions		<u>(257,859)</u>
Contribution deficiency (excess)	\$	<u>0</u>
Organization's covered-employee payroll	\$	4,002,645
Contributions as a percentage of covered-employee payroll		6.4%

*Fiscal year 2015 was the first year of implementation, therefore only one year is shown.

ADDITIONAL FINANCIAL INFORMATION

ASPIRE PUBLIC SCHOOLS TN, LLC

SUPPLEMENTAL STATEMENT OF NET POSITION AND GENERAL FUND BALANCE SHEET - HANLEY 1 JUNE 30, 2015

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ (245,002)	\$ -	\$ (245,002)
Accounts receivable	747,747	-	747,747
Prepaid items	<u>20,488</u>	<u>-</u>	<u>20,488</u>
Total current assets	523,233	-	523,233
NONCURRENT ASSETS			
Pension asset		5,419	5,419
Capital assets, net	<u>-</u>	<u>338,824</u>	<u>338,824</u>
Total assets	<u><u>\$ 523,233</u></u>	<u><u>344,243</u></u>	<u><u>867,476</u></u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred outflow of resources related to pensions		<u>457,750</u>	<u>457,750</u>
LIABILITIES			
Accounts payable	\$ 66,039	\$ -	\$ 66,039
Accrued expenses, salaries and benefits	<u>96,998</u>	<u>24,636</u>	<u>121,634</u>
Total liabilities	<u>163,037</u>	<u>24,636</u>	<u>187,673</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow of resources related to pensions		<u>446,456</u>	<u>446,456</u>
FUND BALANCE			
Nonspendable for prepaid items	20,488	(20,488)	-
Assigned	8,657	(8,657)	-
Unassigned	<u>331,051</u>	<u>(331,051)</u>	<u>-</u>
Total fund balance	<u>360,196</u>	<u>(360,196)</u>	<u>-</u>
Total liabilities and fund balance	<u><u>\$ 523,233</u></u>		
NET POSITION			
Invested in capital assets		338,824	338,824
Unrestricted		<u>352,273</u>	<u>352,273</u>
TOTAL NET POSITION		<u><u>\$ 691,097</u></u>	<u><u>\$ 691,097</u></u>

ASPIRE PUBLIC SCHOOLS TN, LLC

SUPPLEMENTAL STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - HANLEY 1 FOR THE YEAR ENDED JUNE 30, 2015

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES			
General revenues:			
Tennessee Basic Education			
Program revenue	\$ 3,145,203	\$ -	\$ 3,145,203
Program revenues:			
Federal grant revenue	722,064	-	722,064
Other state revenue	64,992	-	64,992
All other local revenue	<u>3,997</u>	<u>-</u>	<u>3,997</u>
Total revenues	<u>3,936,256</u>	<u>-</u>	<u>3,936,256</u>
EXPENDITURES/EXPENSES			
Program Expenses:			
Educational programs	3,325,030	(31,116)	3,293,914
Supporting Services	545,813	-	545,813
Capital outlay	<u>20,761</u>	<u>(20,761)</u>	<u>-</u>
Total expenditures/expenses	<u>3,891,604</u>	<u>(51,877)</u>	<u>3,839,727</u>
Change in fund balance/net position	<u>44,652</u>	<u>51,877</u>	<u>96,529</u>
Fund balance/net position, restated - July 1, 2014	<u>315,544</u>	<u>279,024</u>	<u>594,568</u>
Fund balance/net position - June 30, 2015	<u>\$ 360,196</u>	<u>\$ 330,901</u>	<u>\$ 691,097</u>

ASPIRE PUBLIC SCHOOLS TN, LLC

SUPPLEMENTAL STATEMENT OF NET POSITION AND GENERAL FUND BALANCE SHEET - HANLEY 2 JUNE 30, 2015

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ (324,207)	\$ -	\$ (324,207)
Accounts receivable	656,365	-	656,365
Prepaid items	<u>20,488</u>	<u>-</u>	<u>20,488</u>
Total current assets	352,646	-	352,646
NONCURRENT ASSETS			
Net pension asset		5,072	5,072
Capital assets, net	<u>-</u>	<u>325,319</u>	<u>325,319</u>
Total assets	<u>\$ 352,646</u>	<u>330,391</u>	<u>683,037</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred outflow of resources related to pensions		<u>415,163</u>	<u>415,163</u>
LIABILITIES			
Accounts payable	\$ 53,864	-	53,864
Accrued expenses, salaries and benefits	<u>64,042</u>	<u>12,965</u>	<u>77,007</u>
Total liabilities	<u>117,906</u>	<u>12,965</u>	<u>130,871</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow of resources related to pensions		<u>417,926</u>	<u>417,926</u>
FUND BALANCE			
Nonspendable for prepaid items	20,488	(20,488)	-
Assigned	8,658	(8,658)	-
Unassigned	<u>205,594</u>	<u>(205,594)</u>	<u>-</u>
Total fund balance	<u>234,740</u>	<u>(234,740)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 352,646</u>		
NET POSITION			
Invested in capital assets		325,319	325,319
Unrestricted		<u>224,084</u>	<u>224,084</u>
TOTAL NET POSITION		<u>\$ 549,403</u>	<u>\$ 549,403</u>

ASPIRE PUBLIC SCHOOLS TN, LLC

SUPPLEMENTAL STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - HANLEY 2 FOR THE YEAR ENDED JUNE 30, 2015

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES			
General revenues:			
Tennessee Basic Education			
Program revenue	\$ 2,957,763	\$ -	\$ 2,957,763
Program revenues:			
Private grants and contributions	500	-	500
Federal grant revenue	637,643	-	637,643
Other state revenue	61,224	-	61,224
All other local revenue	<u>2,995</u>	<u>-</u>	<u>2,995</u>
Total revenues	<u>3,660,125</u>	<u>-</u>	<u>3,660,125</u>
EXPENDITURES/EXPENSES			
Program Expenses:			
Educational programs	3,094,977	(22,886)	3,072,091
Supporting Services	486,407	-	486,407
Capital outlay	<u>14,851</u>	<u>(14,851)</u>	<u>-</u>
Total expenditures/expenses	<u>3,596,235</u>	<u>(37,737)</u>	<u>3,558,498</u>
Change in fund balance/net position	<u>63,890</u>	<u>37,737</u>	<u>101,627</u>
Fund balance/net position, restated - July 1, 2014	<u>170,850</u>	<u>276,926</u>	<u>447,776</u>
Fund balance/net position - June 30, 2015	<u><u>\$ 234,740</u></u>	<u><u>\$ 314,663</u></u>	<u><u>\$ 549,403</u></u>

ASPIRE PUBLIC SCHOOLS TN, LLC

SUPPLEMENTAL STATEMENT OF NET POSITION AND GENERAL FUND BALANCE SHEET - ASPIRE COLEMAN JUNE 30, 2015

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 508,014	\$ -	\$ 508,014
Accounts receivable	1,058,661	-	1,058,661
Prepaid items	<u>769</u>	<u>-</u>	<u>769</u>
Total current assets	1,567,444	-	1,567,444
NONCURRENT ASSETS			
Capital assets, net	<u>-</u>	<u>394,210</u>	<u>394,210</u>
Total assets	<u><u>\$ 1,567,444</u></u>	<u><u>394,210</u></u>	<u><u>1,961,654</u></u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred outflow of resources related to pensions		<u>132,884</u>	<u>132,884</u>
LIABILITIES			
Accounts payable	\$ 68,458	-	68,458
Accrued expenses, salaries and benefits	<u>120,205</u>	<u>15,152</u>	<u>135,357</u>
Total liabilities	<u>188,663</u>	<u>15,152</u>	<u>203,815</u>
FUND BALANCE			
Nonspendable for prepaid items	769	(769)	-
Assigned	14,920	(14,920)	-
Unassigned	<u>1,363,092</u>	<u>(1,363,092)</u>	<u>-</u>
Total fund balance	<u>1,378,781</u>	<u>(1,378,781)</u>	<u>-</u>
Total liabilities and fund balance	<u><u>\$ 1,567,444</u></u>		
NET POSITION			
Invested in capital assets		394,210	394,210
Unrestricted		<u>1,496,513</u>	<u>1,496,513</u>
TOTAL NET POSITION		<u><u>\$ 1,890,723</u></u>	<u><u>\$ 1,890,723</u></u>

ASPIRE PUBLIC SCHOOLS TN, LLC

SUPPLEMENTAL STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - ASPIRE COLEMAN FOR THE YEAR ENDED JUNE 30, 2015

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES			
General revenues:			
Tennessee Basic Education			
Program revenue	\$ 3,016,982	\$ -	\$ 3,016,982
Program revenues:			
Private grants and contributions	250,000	-	250,000
Federal grant revenue	260,318	-	260,318
Other state revenue	13,575	-	13,575
All other local revenue	<u>6,428</u>	<u>-</u>	<u>6,428</u>
Total revenues	<u>3,547,303</u>	<u>-</u>	<u>3,547,303</u>
EXPENDITURES/EXPENSES			
Program Expenses:			
Educational programs	3,256,871	(80,701)	3,176,170
Supporting Services	506,260	-	506,260
Capital outlay	<u>279,644</u>	<u>(279,644)</u>	<u>-</u>
Total expenditures/expenses	<u>4,042,775</u>	<u>(360,345)</u>	<u>3,682,430</u>
Change in fund balance/net position	<u>(495,472)</u>	<u>360,345</u>	<u>(135,127)</u>
Fund balance/net position - July 1, 2014	<u>1,874,253</u>	<u>151,597</u>	<u>2,025,850</u>
Fund balance/net position - June 30, 2015	<u><u>\$ 1,378,781</u></u>	<u><u>\$ 511,942</u></u>	<u><u>\$ 1,890,723</u></u>

ASPIRE PUBLIC SCHOOLS TN, LLC

SUPPLEMENTAL STATEMENT OF NET POSITION AND GENERAL FUND BALANCE SHEET - MEMPHIS OFFICE JUNE 30, 2015

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 2,282,401	\$ -	\$ 2,282,401
Accounts receivable	3,236,095	-	3,236,095
Prepaid items	<u>8,576</u>	<u>-</u>	<u>8,576</u>
Total current assets	5,527,072	-	5,527,072
NONCURRENT ASSETS			
Accounts receivable, net	1,210,919	-	1,210,919
Net pension asset		1,531	1,531
Capital assets, net	<u>-</u>	<u>138,599</u>	<u>138,599</u>
Total assets	<u>\$ 6,737,991</u>	<u>140,130</u>	<u>6,878,121</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred outflow of resources related to pensions		<u>174,845</u>	<u>174,845</u>
LIABILITIES			
Accounts payable	\$ 654,675	-	654,675
Accrued expenses, salaries and benefits	<u>62,846</u>	<u>57,339</u>	<u>120,185</u>
Total liabilities	<u>717,521</u>	<u>57,339</u>	<u>774,860</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	1,210,919	(1,210,919)	-
Deferred inflow of resources related to pensions	<u>-</u>	<u>126,142</u>	<u>126,142</u>
Total deferred inflow of resources	1,210,919	(1,084,777)	126,142
FUND BALANCE			
Nonspendable for prepaid items	8,576	(8,576)	-
Assigned	44,111	(44,111)	-
Unassigned	<u>4,756,864</u>	<u>(4,756,864)</u>	<u>-</u>
Total fund balance	<u>4,809,551</u>	<u>(4,809,551)</u>	<u>-</u>
Total liabilities, deferred inflows, and fund balance	<u>\$ 6,737,991</u>		
NET POSITION			
Invested in capital assets		138,599	138,599
Unrestricted		<u>6,013,365</u>	<u>6,013,365</u>
TOTAL NET POSITION		<u>\$ 6,151,964</u>	<u>\$ 6,151,964</u>

ASPIRE PUBLIC SCHOOLS TN, LLC

SUPPLEMENTAL STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - MEMPHIS OFFICE FOR THE YEAR ENDED JUNE 30, 2015

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES			
Program revenues:			
Private grants and contributions	\$ 2,902,456	\$ 1,210,919	\$ 4,113,375
Federal grant revenue	316,031	-	316,031
All other local revenue	1,241	-	1,241
Interest income	<u>2,691</u>	<u>-</u>	<u>2,691</u>
Total revenues	<u>3,222,419</u>	<u>1,210,919</u>	<u>4,433,338</u>
 EXPENDITURES/EXPENSES			
Supporting Services	3,008,796	(42,140)	2,966,656
Capital outlay	<u>90,908</u>	<u>(90,908)</u>	<u>-</u>
Total expenditures/expenses	<u>3,099,704</u>	<u>(133,048)</u>	<u>2,966,656</u>
 Change in fund balance/net position	<u>122,715</u>	<u>1,343,967</u>	<u>1,466,682</u>
 Fund balance/net position, restated - July 1, 2014	<u>4,686,836</u>	<u>(1,554)</u>	<u>4,685,282</u>
 Fund balance/net position - June 30, 2015	<u>\$ 4,809,551</u>	<u>\$ 1,342,413</u>	<u>\$ 6,151,964</u>

SUPPLEMENTARY INFORMATION

ASPIRE PUBLIC SCHOOLS TN, LLC

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
FEDERAL AWARDS			
U.S. Department of Education:			
Passed through Achievement School District:			
Title I, Part A, Basic Grant	84.010		\$ 407,461
Title I, School Improvement Grant*	84.377		743,461
Special Education: IDEA Basic Local Assistance, Part B	84.027		136,954
IASA Title II, Part A, Teacher Quality	84.367		<u>58,516</u>
Total Department of Education Passed Through Achievement School District			1,346,392
Passed through Aspire Public Schools:			
Replication and Expansion of High-Quality Charter Schools	84.282M		191,088
Teacher Incentive Fund*	84.374A		<u>398,576</u>
Total Expenditures of Federal Awards			1,936,056
STATE FINANCIAL ASSISTANCE			
Tennessee Department of Education:			
Board of Education of Achievement School District Basic Education Program	N/A		<u>9,119,948</u>
Total Expenditures of Federal Awards and State Financial Assistance			<u>\$ 11,056,004</u>

*Tested as a major program under OMB Circular A-133.

ASPIRE PUBLIC SCHOOLS TN, LLC

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE YEAR ENDED JUNE 30, 2015

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards and state financial assistance includes the government grant activity of the Organization and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Tennessee *Audit Manual*, issued by the Tennessee Comptroller of the Treasury; therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

OTHER INDEPENDENT AUDITOR'S REPORTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditor's Report

**Board of Directors
Aspire Public Schools TN, LLC
Oakland, California**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and general fund of Aspire Public Schools TN, LLC, (the Organization) which collectively comprise the Organization's basic financial statements and have issued our report thereon dated December 28, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gilbert Associates, Inc.

**GILBERT ASSOCIATES, INC.
Sacramento, California**

December 28, 2015

REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Independent Auditor's Report

**Board of Directors
Aspire Public Schools TN, LLC
Oakland, California**

Report on Compliance for Each Major Federal Program

We have audited Aspire Public Schools TN, LLC's (the Organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2015. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Audit Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Gilbert Associates, Inc.

**GILBERT ASSOCIATES, INC.
Sacramento, California**

December 28, 2015

FINDINGS AND RECOMMENDATIONS

ASPIRE PUBLIC SCHOOLS TN, LLC

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2015

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes

 X No

Significant deficiency(ies) identified?

_____ Yes

 X None Reported

Noncompliance material to financial statements noted?

_____ Yes

 X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ Yes

 X No

Significant deficiency(ies) identified?

_____ Yes

 X None Reported

Type of auditor's report issued on compliance for
major programs:

Unmodified

Any audit findings disclosed that are required
to be reported in accordance with Section .510(a) of
OMB Circular A-133?

_____ Yes

 X No

Identification of major programs

CFDA Numbers

84.377

84.374A

Name of Federal Program or Cluster

Title I, School Improvement Grant

Teacher Incentive Fund

Dollar threshold used to distinguish between

Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

_____ Yes

 X No